October 29, 2007

Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Bernanke:

In the wake of the continued fallout of the national subprime mortgage market, we commend the Federal Reserve Board (Board) for attempting to address and curb the risks associated with unfair, deceptive and predatory lending practices as well as certain subprime mortgage products. As Governors, we see first hand the detrimental impact that abuses in the subprime mortgage market are having on our residents and communities and thus see the urgency to act immediately in order to protect vulnerable homeowners.

In order to truly address this national crisis a comprehensive approach is needed. States have historically been at the forefront in providing strong consumer protections to guard against unfair and deceptive lending practices. More importantly, State predatory lending laws have been effective in helping to restrict abuses while not restricting access to credit.

However, the scale of this problem and the rise in delinquencies and foreclosure rates across the country warrants stronger action at the federal level to establish a minimum federal standard. Congress, through the enactment of the Home Ownership and Equity Protection Act (HOEPA), designated the Board with the responsibility of monitoring abuses in the market in order to prohibit unfair or deceptive acts or practices that are abusive or otherwise not in the interest of the borrowers. Due to the importance of this issue and its affect on vulnerable homeowners in our states we urge you to promulgate tougher regulations on the subprime market. Below, we briefly summarize the areas where it is critical that the Board act in order to curb abusive subprime lending practices.

Loan affordability standards should be established that would prevent lenders and brokers from placing borrowers into any home loan in which that borrower has no realistic capacity to repay, once the loan resets and the interest rate jumps considerably, after the initial teaser rate lapses. In addition, certain subprime features such as the lack of an escrow requirement, when most prime loans contain them, and the use of prepayment penalties, when the overwhelming majority of prime loans do not have them, give rise to disparate treatment between prime and subprime borrowers and make subprime borrowers more vulnerable to unfair and deceptive practices. The lack of an escrow requirement allows lenders to deceptively promote lower monthly payment fees and prepayment penalties can keep the borrower in an undesirable loan when they attempt to refinance to a more financially favorable product.

Accordingly, we are recommending that the Board take strong regulatory action in the subprime market by implementing the following recommendations:

- Requiring an evaluation of a borrower's ability to repay the loan at the fully-indexed rate, with appropriate consideration of available income and/or assets;
- Requiring the establishment of reasonable debt-to-income and debt-to-assets standards for gauging mortgage costs against a borrower's other financial obligations;
- Requiring the establishment of an escrow account for taxes and insurance; and
- The Prohibition of pre-payment penalties by all lending institutions making subprime loans.

Quick and decisive action by the Federal Reserve Board in these areas is critical to the sustainability of our economy and to protect vulnerable Americans who would otherwise lose the ability to obtain and maintain the American dream of homeownership.

We look forward to working with you on this matter. Thank you for your consideration.

Sincerely,

Governor Jon S. Corzine
State of New Jersey

Governor Deval Patrick
State of Massachusetts

Governor Jennifer M. Granholm
State of Michigan

Governor Elliot Spitzer
State of New York

Ted Strickland

Governor Ted Strickland
State of Ohio